

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05
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SP-02 SS-15 STR-04 TRSE-00 ACDA-07 IO-13 EURE-00
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TO SECSTATE WASHDC PRIORITY 3451
INFO ALL EC CAPITALS
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E.O. 11652: N/A
TAGS: EEC, ENRG, CIEC
SUBJECT: EC POSITION ON ENERGY COMMISSION ISSUES IN CIEC

REFS: (A) STATE 68642; (B) EC BRUSSELS 3181

1. SUMMARY. THE EUROPEAN COMMUNITY POSITION ON ISSUES IN THE ENERGY COMMISSION OF CIEC IS NEARING FINAL PREPARATION. THERE APPEARS TO BE GENERAL AGREEMENT ON THE PRIMACY OF CONTINUING THE NORTH-SOUTH DIALOGUE ON ENERGY MATTERS, AS A MEANS OF ADVANCING KEY GOALS OF STABILITY AND SECURITY OF OIL SUPPLIES AT REASONABLE ENERGY PRICES. OTHER OBJECTIVES INCLUDE IMPROVEMENT OF LDC ENERGY INVESTMENT CLIMATE AND COOPERATION IN R&D ACTIVITIES. WHAT PRICE, IF ANY, THE EC WOULD BE WILLING TO PAY, HOWEVER, DOES NOT APPEAR TO HAVE YET BEEN FORMALLY DEFINED. IN ADDITION TO
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CONCESSIONS IN NON-ENERGY AREAS (REF A), THE EC IS CONSIDERING HOW FAR IT MIGHT GO IN PROVIDING OIL PRODUCERS ACCESS TO EUROPEAN OIL PRODUCT MARKETS, IN FURTHERING TRANSFER OF ENERGY TECHNOLOGY, AND IN SUPPLEMENTING PRIVATE ENERGY INVESTMENT IN LDCS WITH PUBLIC FINANCING. END SUMMARY.

2. THE CIEC ENERGY COMMISSIONWORKING GROUP OF THE EC COUNCIL

HAS BEEN TRYING TO REACH AGREEMENT ON A COMMUNITY POSITION BASED ON A WORKING PAPER PREPARED ON MARCH 25. THIS GROUP WILL SEEK TO RESOLVE REMAINING DIFFERENCES AT A MEETING ON APRIL 4 IN PREPARATION FOR A GENERAL CIEC REVIEW BY THE EC HIGH LEVEL CIEC GROUP ON APRIL 5. ANY UNRESOLVED ISSUES ARE TO BE SUBMITTED TO THE EC FOREIGN MINISTERS COUNCIL MEETING ON APRIL 5 IN THE HOPE OF GETTING APPROVAL OF A FINAL PACKAGE IN TIME FOR THE G-8 HORIZONTAL COORDINATING MEETING IN PARIS ON APRIL 6 AND THE APRIL 7 VERTICAL G-8 MEETING ON ENERGY. THE EC COMMISSION WILL BE REPRESENTED AT THE APRIL 7 MEETING BY NOEL MORTON OF THE HYDROCARBONS DIVISION OF THE DIRECTORATE GENERAL FOR ENERGY (DG XVII).

3. THE MISSION HAS OBTAINED IN CONFIDENCE A COPY OF THE WORKING PAPER NOTED ABOVE. ALTHOUGH SOME ISSUES ARE AVOIDED OR ADDRESSED IN GENERAL TERMS AND SOME MEMBER STATE STILL HAVE RESERVATIONS, THIS PAPER, EVEN THOUGH SUBJECT TO REVISION, GIVES A USEFUL INDICATION OF THE TREND OF EC THINKING WITH REGARD TO THE CIEC ENERGY COMMISSION. WHILE IT ADDRESSES THE DESIDGRATA IN THE ENERGY AREA IN A GENERAL WAY, IT AVOIDS COMMENTARY ON HOW HIGH A PRICE THE G-8 SHOULD PAY IN NON-ENERGY AREAS IN ORDER TO OBTAIN G-19 APPROVAL. IN ITS INTRODUCTION, THE PAPER NOTES THAT "THE FINAL OUTCOME OF THE CONFERENCE WILL EMBRACE A PACKAGE OF CONCESSIONS AND ADVANTAGES ACROSS ITS WHOLE SPECTRUM" AND THAT IT IS NECESSARY TO FOLLOW CLOSELY THE WORK OF FOUR CIEC COMMISSIONS "BECAUSE A CONCESSION IN ONE MIGHT REACT ON THE OTHERS." THE INTRODUCTION ALSO STATES THAT THE COMMUNITY BELIEVES "IT IS PARTICULARLY DESIRABLE THAT THE ENERGY DIALOGUE WHICH HAS BEGUN IN THE CIEC CONFERENCE SHOULD CONTINUE IN ONE FORM OR ANOTHER," LIMITED OFFICIAL USE

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BUT NOTES THAT "THERE ARE FEW SPECIFIC CONCESSIONS WHICH WE CAN AFFORD TO MAKE ON ENERGY ALONE".

4. THE PRINCIPAL POINTS MADE IN THE PAPER ARE AS FOLLOWS:

(A) STABILITY AND SECURITY OF OIL SUPPLY: A BASIC OBJECTIVE FOR THE COMMUNITY IS TO ENSURE FOR THE FUTURE "SUFFICIENT AND REGULAR SUPPLY OF ENERGY, UNDER STABLE MARKET CONDITIONS AND AT PRICES WHICH ARE FAIR FOR BOTH PRODUCERS AND CONSUMERS." IN THE CONTEXT OF THIS OBJECTIVE, THE EC PARTICULARLY DESIRES "SECURITY OF SUPPLY" AND, IDEALLY, AN ASSURANCE FROM OPEC MEMBER STATES "AGAINST POLITICALLY-MOTIVATED INTERRUPTIONS OF SUPPLY." WHILE A SERIOUS EFFORT SHOULD BE MADE TO HAVE SPECIFIC REFERENCE TO "SECURITY AND STABILITY OF SUPPLY" IN THE FINAL CIEC COMMUNIQUE, REALISTICALLY THE MOST THAT PROBABLY CAN BE OBTAINED IS ACCEPTANCE OF CONTINUING CONSULTATION WHICH "SHOULD EMBRACE SUPPLY AND DEMAND AS ONE OF ITS MAIN COMPONENTS".

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OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 IO-13
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(B) OIL PRICES. WHILE RECOGNIZING THAT THE OIL PRODUCERS DECIDE THE PRICES AT WHICH THEY OFFER THEIR PRODUCTS ON THE WORLD MARKET, THE EC "CANNOT ACCEPT ANY COMMITMENT TO INDEXATION OR ANY OTHER AUTOMATIC FORM OF PRICE FIXING IN CIEC". THE EC BELIEVES THAT SINCE IT IS "ESSENTIAL THAT THE CONSUMERS' VOICE BE HEARD BEFORE FINAL DECISIONS ARE TAKEN", CONSULTATIONS ARE "HIGHLY DESIRABLE IN THE GENERAL FIELD OF PRICING," BROADLY DEFINED TO COVER SUPPLY AND DEMAND, COSTS, PURCHASING POWER OF OIL EXPORT EARNINGS, AND THE RELATIONSHIP OF OIL PRICES AND THE WORLD ECONOMIC SITUATION.

(C) ACCESS. THE PAPER NOTES THE CONFLICT BETWEEN EXCESS CAPACITY IN THE COMMUNITY'S OIL REFINING INDUSTRY AND THE DESIRE OF THE OIL PRODUCERS TO BUILD UP THEIR OWN DOWNSTREAM CAPACITY AND EXPORTS OF OIL PRODUCTS. IT BELIEVES THE G-19 MAY SEEK TO ESTABLISH
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A LINK BETWEEN ACCESS TO DEVELOPED COUNTRY MARKETS AND THE SECURITY

OF OIL SUPPLY. IN VIEW OF ITS SURPLUS REFINERY CAPACITY, "THE COMMUNITY CANNOT AFFORD TO MAKE SPECIFIC CONCESSIONS OR OFFER SPECIFIC GUARANTEES ON INCREASED PRODUCT IMPORTS AT THE CIEC". HOWEVER, IN THE PROBABLE ABSENCE OF A MEETING OF THE MINDS BETWEEN THE G-8 AND G-19 ON THIS ISSUE, "CONTINUING CONSULTATION IS THE BEST WAY FORWARD, AND THE MOST (DANISH RESERVE REGARDING 'THE MOST') WE SHOULD OFFER IN THE CIEC IS TO INCLUDE THESE MATTERS IN OUR PROPOSED ONGOING DIALOGUE, " IN WHICH THE G-8 WOULD PROMISE TO CONSIDER POSSIBLE TRANSFER OF TECHNOLOGY TO DEVELOPING COUNTRIES AS WELL AS ACCESS FOR OIL EXPORTING COUNTRIES TO THE ENERGY MARKETS OF THE DEVELOPED COUNTRIES. (COMMENT. DENMARK HAS A GENERAL RESERVE ON THIS ENTIRE SECTION PLUS SOME MORE SPECIFIC OBJECTIONS TO PROPOSED LANGUAGE WHICH LIMITS POSSIBLE CONCESSIONS TO THE OIL PRODUCERS IN REGARD TO IMPORTS OF OIL PRODUCTS BY INDUSTRIALIZED STATES.)

(D) TRANSFER OF TECHNOLOGY. THIS SHOULD CONCERN PRIMARILY FACILITATING ACCESS FOR DEVELOPING COUNTRIES TO "NON-SENSITIVE ENERGY TECHNOLOGIES" AND SECURING "ACTIVE PARTICIPATION BY DEVELOPING COUNTRIES IN ENERGY R AND D ACTIVITIES OF POTENTIAL BENEFIT TO THEM". THE PAPER NOTES THAT "MOST OF THE ACTION UNDER THIS HEADING WOULD NEED TO BE IMPLEMENTED BY THE PRIVATE SECTOR, ENCOURAGED BY THE GOVERNMENTS OF THE INDUSTRIALIZED COUNTRIES". IT CALLS FOR A DECISION ON THE PROPOSAL TO CREATE AN INTERNATIONAL ENERGY INSTITUTE. (COMMENT. COMMISSION AND PERMDEL SOURCES STATE THAT TO DATE THE MEMBER STATES HAVEN NOT BEEN ABLE TO AGREE AS TO HOW STRONGLY THEY SHOULD PUSH THE IEL.)

(E) ENERGY INVESTMENT. ACCORDING TO THE PAPER, THE EC BELIEVES THAT "ENERGY INVESTMENT SHOULD BE ENCOURAGED, ESPECIALLY IN DEVELOPING COUNTRIES," AND STRESSES THAT RISK CAPITAL FOR BOTH EXPLORATION AND DEVELOPMENT SHOULD NORMALLY COME FROM THE PRIVATE SECTOR. IT NOTES THAT THERE IS A NEED TO IMPROVE THE CLIMATE FOR SUCH INVESTMENT; WHILE THE INDUSTRIALIZED COUNTRIES WILL CONTINUE TO CONSIDER HOW "THEY CAN PROTECT THEIR INVESTORS," THEY WILL LIMITED OFFICIAL USE

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ALSO "LOOK TO THE DEVELOPING COUNTRIES TO HELP THEMSELVES BY ENSURING THE SECURITY OF SUCH INVESTMENT." IN ADDITION TO POSSIBLE ASSISTANCE FROM INTERNATIONAL BODIES (E.G. THE IBRD), "THE COMMUNITY SHOULD BE PREPARED TO PLAY A PART IN ARRANGEMENTS" FOR ENERGY INVESTMENTS IN LDCS. THE COMMUNITY ALSO SHOULD BE PREPARED TO DISCUSS WAYS AND MEANS OF PROVIDING CAPITAL FOR ENERGY EXPLORATION AND DEVELOPMENT FOR THE LDCS IN POSSIBLE NORTH-SOUTH ONGOING ENERGY CONSULTATIONS MECHANISM. (COMMENT. THERE IS NO EC AGREEMENT ON THIS LAS PROPOSAL. ACCORDING TO OUR SOURCES, IN GENERAL, FRANCE AND ITALY FAVOR PUBLIC FINANCING FOR LDC ENERGY DEVELOPMENT, WHILE GERMANY AND DENMARK OBJECT.)

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(F) CONSULTATIONS: THE COMMUNITY FAVORS ESTABLISHMENT OF THE
"FRAMEWORK OF COOPERATION AIMED AT DEVELOPING, UNDER OPTIMAL
CONDITIONS, THE WORLD'S ENERGY RESOURCES". TO THIS END, IT FAVORS
THE CONTINUATION OF THE NORTH-SOUTH DIALOGUE: "TO IMPROVE MUTUAL
UNDERSTANDING AND INSIGHT INTO WORLD ENERGY PROBLEMS; TO ENABLE THE
COUNTRIES TO PURSUE THEIR ENERGY POLICIES IN HARMONY; TO PROMOTE
ACTIVE COOPERATION IN THE ENERGY FIELD, AND TO MONITOR PROGRESS
IN ENERGY COOPERATION." THE PAPER NOTES, HOWEVER, THAT THE IDEA
OF ONGOING ENERGY CONSULTATION HAS BEEN REBUFFED TWICE BEFORE
BY THE G-19. NEVERTHELESS, THE COMMUNITY "SHOULD REGARD
CONSULTATION IN THE ENERGY FIELD AS ONE OF THE MAIN COMPONENTS OF
OUR PACKAGE." GIVEN THE DESIRABILITY FOR A FLEXIBLE ATTITUDE ON
THE MECHANISM FOR CONSULTATION, THE PAPER NOTES, "THERE ARE GOOD
REASONS FOR AN INFORMAL INITIAL APPROACH, 8.E., USING SOME FOR
OF RESTRICTED BUT REPRESENTATIVE BODY. THE IMPORTANT POINT,
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HOWEVER, IS TO OBTAIN AGREEMENT THAT IT IS IN THE COMMON

INTEREST THAT CONSULTATIONS ON ENERGY MATTERS SHOULD CONTINUE IN WHATEVER FORM FINDS GENERAL ACCEPTANCE."

5. DISCUSSIONS WITH EC COMMISSIN AND UK PERMDEL OFFICIALS ON THE POINTS IN PARAS 5 AND 6 OF REF A REINFORCE OUR IMPRESSION THAT THE COMMUNITY IS STILL SOMEWHAT UNCERTAIN AS TO HOW FAR IT SHOULD PRESS FOR VARIOUS DESIRABLE OUTCOMES IN THE CIEC ENERGY COMMISSION AND AS TO THE DEGREE OF SPECIFICITY THE G-8 SHOULD SEEK ON SUCH ISSUES AS SUPPLY SECURITY, PRICE DETERMINATION, AND LDC ENERGY INVESTMENT CLIMATE. SEVERAL POINTS NOTED IN REF A (E.G., TRANSITION PERIOD, DEPLETABILITY OF OIL AND GAS, AND LAW OF THE SEA ISSUES) HAVE NOT BEEN SPECIFICALLY ADDRESS IN THE EC WORKING PAPER, AND THE COMMUNITY POSITION IS NOT CLEAR. EC COMMISSION OFFICIALS (LONGO AND MORTON, BOTH OF DG XVII) SAID THEY LEANED IN FAVOR OF REFERRING TO THE G-19 THE PROBLEM OF UNCERTAINTY IN ENERGY SUPPLY AND DEMAND AND NOTING SIMULTANEOUSLY THE DESIRABILITY FOR CONSULTATION IN ORDER TO REDUCE SUCH UNCERTAINTY AS A MEANS OF SUPPORTING A CONTINUING ENERGY DIALOGUE. LONGO SAW NO PARTICULAR ADVANTAGE FOR S SPECIFIC REFERENCE TO PARTICIPATION BY NON-IEA MEMBES IN R AND D COOPERATION AND THOUGHT SEEKING ACCEPTABLE LANGUAGE COULD CAUSE PROBLEMS.
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Message Attributes

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